

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON KING SABATA DALINDYEBO MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of King Sabata Dalindyebo Municipality, which comprise of the statement of financial position as at 30 June 2010, the statement of financial performance, the statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages XX to XX..

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable financial reporting framework and in the manner required by the Municipal Finance Management Act. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

4. I draw attention in respect of these matters:

Property, plant and equipment

5. In accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*, as evidenced by Property, plant and equipment of R638 891 544 (2009: R509 055 893), as disclosed in note 7 to the financial statements, includes amounts incorrectly classified to the value of R34 959 608. These represent investment properties of R34 739 536 and intangible assets of R220 072.
6. Due to the information and the deficiencies of the fixed assets register and supporting documentation maintained by the municipality. Consequently, I was unable to perform any alternate procedures. I did not obtain such evidence to satisfy myself as to the existence, valuation and completeness of Property, plant and equipment.
7. The municipality did not provide sufficient evidence of the annual review of the residual values and useful lives of Property, plant and equipment in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. The fixed asset register provided for audit purposes did not reflect any residual values and useful lives. I am unable to quantify the extent of the misstatement as the Fixed Asset Register supplied for audit purposes did not agree with the financial statements with a difference of R13 018 630. An amount of R8 504 585 for depreciation and accumulated depreciation does not agree with the financial statements. No alternative procedures could be performed due to the lack of

documentation regarding the annual review. I am thus unable to satisfy myself regarding the valuation and accumulated depreciation of the property, plant and equipment.

8. The municipality holds several properties that are being inhabited by the municipal staff. I was unable to determine if these properties are correctly classified due to audit evidence not being available. The amount may represent property held for sale or imply that a fringe benefit exists for these employees. There were no alternative audit procedures that I could perform to obtain reasonable assurance that these properties were correctly classified within property, plant and equipment. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself that the municipal staff housing was adequately disclosed in the financial statements.

Investment property

9. Further, I was unable to confirm the rights and obligations and valuation of the municipality in regards to certain investment properties of R31 783 013 (2009: R31 783 013), disclosed in note 9 to the financial statements, to the value of R5 519 857. Further, the valuation for an additional R3 330 126 of investment properties could not be confirmed. Further, the investment register and financial statement did not reconcile by R2 956 523. Alternative procedures performed of the valuation roll did not provide appropriate and sufficient audit evidence in this regard.

Revenue from non-exchange and exchange transactions

10. There was no system of control over Rental of facilities and equipment on which I could rely for the purpose of my audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all rental revenue was properly recorded. Further, rental lease agreements had not been renewed. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and accuracy of rental revenue of R10 924 103 (2009: R10 310 380) disclosed in note 19 to the financial statements.
11. Certain anomalies were identified on the valuation roll. There were 230 properties which had nil values per the valuation roll relating to superseded land demarcations where new erven numbers were assigned to these properties. I could not obtain a reconciliation to support the land demarcation changes. There were 111 properties registered to various owners that had nil values per the valuation roll prepared by the valuer and consequently no revenue income was recognised for these properties. Further, incorrect tariffs were charged on properties. There were no alternative audit procedures that I could perform to obtain reasonable assurance that all the revenue relating to these properties were properly recorded and it was impractical to obtain the potential financial effect to Property rate revenue. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself that the Property rates revenue of R117 216 295 (2009: R 61 489 662) was accurate and complete in note 17.
12. Included in Service charges revenue of R170 480 353 (2009: R116 289 243) disclosed in note 18 of the financial statements, is revenue from prepaid electricity sales of R76 191 036 which was accounted for on the cash basis (on receipt of funds in the bank account). The revenue received from prepaid electricity sales was not accrued and recognised as revenue on a consumption basis contrary to GRAP 9 - *Revenue from Exchange Transactions*, which requires that revenue be recognised in the period in which it was earned. There were no alternative audit procedures that I could perform to obtain the financial misstatement effect of this deviation from the accounting framework. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness of prepaid electricity income included in service revenue of R170 480 353 (2009: R116 289 243).

Trade and other receivables from exchange transactions

13. In terms of the International Accounting Standards 39 and International Financial Reporting Standards 7, Receivables should be stated at their present value in the financial statements as at year end, with the difference between the nominal amount and the present value recognized as interest income over the financing period. Receivables were not present valued at year end, this has resulted in an understatement of interest income of R866 338, overstatement of accounts receivables of R1 823 391 and an overstatement of revenue of R2 689 729 and not properly disclosed as a class of financial assets.
14. An impairment provision loss has not been recognised for all types of receivables in accordance with South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133), *Financial Instruments: Recognition and measurement*. Our estimate of the amount which should have been provided for is R88 361 387. Receivables of R165 154 233 (2009: R162 414 666) as disclosed in note 2 to the financial statements is overstated and bad debt adjustment is overstated by R88 361 387.
15. Further, the municipality has incorrectly accounted for indigent subsidies amounting to R21 878 029. This amount has been included as a bad debt write off within the Statement of Financial Performance and should have been accounted for as an indigent rebate.
16. Indigent application forms were not adequately completed resulting in an understatement of receivables and revenue by R455 642. I was therefore unable to confirm the accuracy of the indigent subsidy and the valuation of the receivable for this amount.

Trade and other payables from exchange transactions

17. The Trade payables balance of R42 356 979 (2009: R83 200 638) as disclosed in note 11 of the financial statements did not reconcile between the financial statements and the underlying accounting records and the supporting schedule provided for audit purposes did not reconcile to the balance disclosed in note 11 to the financial statements. Consequently, the Trade payables balance is misstated by R10 949 582 and R25 849 110 respectively. Further, supporting documentation of R660 373 was not supplied for audit. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of Trade creditors and Accruals within the financial statements.
18. The leave balance of employees could not be verified as the leave records of the municipality have not been adequately maintained. As a result I am unable to conclude if the accrual of R15 244 270 (2009: R12 291 505) as disclosed in the Statement of Financial Position and note 11 to the financial statements is misstated by R2 884 505. Further, the leave accrual listing supplied for audit purposes did not reconcile to the financial statements by R1 139 276.
19. Included in Trade and other payables are suspense accounts for uncleared deposits to the value of R6 168 000. No information could be provided to confirm the balance of these accounts. The municipality's records did not permit the application of alternative audit procedures regarding the appropriate audit evidence to satisfy myself as to the existence, obligations, completeness and valuation of the accounts payable clearing accounts.
20. In terms of International Accounting Standard 39 and International Financial Reporting Standards 7, Payables should be stated at their present value in the financial statements as at year end, with the difference between the nominal amount and the present value recognized as interest income over the financing period. Payables were not present valued at year end, this has resulted in an understatement of interest income of R5 180 474, overstatement of payable of R1 862 642 and an overstatement of expenditure of R7 043 116 and not properly disclosed as a class of financial assets.

Call investment deposits

21. The call investment deposit balance of R151 314 489 (2009: R93 497 533), as disclosed in note 5 to the financial statements, does not agree to the balance of R148 682 779 as disclosed in the bank confirmations. The municipality did not reconcile the difference of R2 631 710 between the financial statements and the bank confirmations. Consequently, the call investment deposit is overstated by R2 631 710. There were no alternative audit procedures that I could perform to obtain to confirm the investment deposits. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness of call investment deposits.

Employee related costs

22. The municipality could not provide sufficient appropriate audit evidence to support adjusting journal entries of R5 307 453. There was no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that employee related costs were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to effect of these journals on the financial statements.

Remuneration of councillors

23. Unemployment Insurance Fund contributions were not paid on behalf of the Mayor, executive council members and part-time councillors as required by Section 5(1) and (2) of the Unemployment Insurance Contributions Act 4 of 2002. Furthermore, the municipality did not provide for penalties and interest on these contributions owing since inception of the Act. Consequently finance costs, payables and employee related costs are understated by R627 498.
24. Logbooks were not provided by the municipality to support the entitlement of councillors to reimbursive travel allowances included within the motor allowances of R3 715 338 paid to the councillors during the year under review. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and classification of the remuneration of councillors.

Repairs and Maintenance

25. Included in the Statement of Financial Performance is Repairs and Maintenance of R8 421 985 (2009: R9 117 924). Supporting documentation for expenditure to the value of R2 692 528 has not been provided. There was no satisfactory alternative audit procedure that I could perform to obtain reasonable assurance that repairs and maintenance were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to balance on the financial statements.

General expenditure

26. Included in the Statement of Financial Performance is General expenditure of R70 957 409 (2009: R44 355 935) included in note 31. Supporting documentation for expenditure to the value of R3 444 217 had not been provided. There was no satisfactory alternative audit procedure that I could perform to obtain reasonable assurance that general expenditure was properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to accuracy, occurrence and classification on the financial statements.

Retirement benefit information

27. The municipality could not provide sufficient appropriate audit evidence to support the Defined benefit plan liability of R19 500 000 (2009: R14 200 000) and the R178 800 000 of assets to finance the liability as disclosed in Note 40.1 of the financial statements. There were no alternative audit procedures that I could perform to obtain reasonable assurance. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of the defined benefit plan. The Defined benefit plan liability has not been disclosed in terms of International Accounting Standards 19, *Employee benefits*.

Value Added Tax

28. Amounts reflected on the VAT returns for the year under review did not agree to the amounts reflected in the general ledger and I was unable to reconcile an amount of R10 814 795. Consequently, I was unable to verify the completeness and existence of the VAT receivable of R35 351 536 (2009: R20 631 276) included in note 13 of the financial statements.
29. The municipality has claimed VAT deductions based on invoices that are not considered a valid tax invoice in terms of the VAT legislation. The municipality has inconsistently applied zero rated and exempt status transactions within conditional grants and has inconsistently applied the prescribed VAT rate. Consequently, the VAT receivable is overstated by R16 631 389. There was no satisfactory alternative audit procedure that I could perform to obtain reasonable assurance. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to rights and obligations of the VAT receivable on the financial statements.

Provision for landfill site

30. A Provision has not been made for the environmental rehabilitation costs of restoring the municipality's landfill sites. A provision should be made for the municipality's present obligation incurred as a consequence of its' past use of the landfill sites in accordance with the Standard of Generally Recognised Accounting Practice, GRAP 19, *Provisions, contingent liabilities and contingent assets*. In addition, the municipality has an obligation in terms of section 28 of the National Environment Management Act, 1998 (Act No. 107 of 1998) to restore such sites. The municipality does not assess the remaining useful life of all their landfill sites. Detailed records of the capacity of one of the landfill sites was not made available by the municipality's engineers. Consequently, a provision for the rehabilitation of landfill sites has not been made in the financial statements. Under these circumstances, I was unable to determine the extent of the misstatement. There was no satisfactory alternative audit procedure that I could perform to obtain reasonable assurance.

Contingent liability

31. The municipality disclosed Contingent liabilities of R1 000 000 (2009: R9 700 000) in note 41 of the financial statements. External confirmations received confirmed that the contingent liabilities were understated by R5 833 318.

Irregular and unauthorised expenditure

32. Section 62 of the Municipal Finance Management Act, (Act no. 56 of 2003) requires the municipality to implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective. Expenditure made in contravention of the supply chain management requirements amounting to R51 313 009 was identified.
33. In addition, expenditure amounting to R1 477 478 was not authorised as it exceeded the budget. The amount was not included in unauthorised expenditure, disclosed in note 37.1 to the financial statements resulting in unauthorised expenditure being understated by R1 477 478.

Inventories

34. Standards of Generally Recognised Accounting Practice, GRAP 12, *Inventories*, requires inventory to be measured at the lower of cost and net realisable value. Warehouses for the maintenance materials and spare parts of R744 330 and R284 250 respectively (2009: R744 330; R284 250) as disclosed in note 4 were written off in the year; however this has been included in inventory.
35. The adjustments noted at the year end inventory count were not processed into the inventory system, this has lead to the consumable stores of R4 154 262 (2009: R960 540) as disclosed in note 4 being overstated by R3 031 599. Obsolete and redundant inventory amounting to R 186 435 was also not written down to their net realizable value.
36. The value of the township houses of R26 074 000 (2009: R26 074 000) disclosed in note 4 does not include the value of the houses built on the land amounting to R61 588 000. It was also noted that land included in the valuation roll amounting to R10 974 000 has not been disclosed on the land/ inventory register.
37. This has resulted in inventory of R31 256 841 (2009: R28 063 120) as disclosed in note 4 being understated by R46 553 821, expenditure being understated by R4 060 179 and the revaluation surplus being overstated by R50 614 000.

Government grants and subsidies, Grants and subsidies paid and Unspent conditional grants and receipts

38. The unspent conditional grants and receipts R106 031 871 (2009: R75 555 310), disclosed in note 14 to the financial statements, included a misstatement in the prior year balance of R3 474 674, due to some unspent grant amounts being incorrectly recognised as revenue. Taking this amount into consideration, the year end unspent conditional grants has been overstated by R4 699 101. The difference being due to limited controls implemented by the municipality over conditional grants.
39. Included in the unspent grants and receipts balance is an amount of R4 475 185 (2009: R9 208 873) which represents subsidies from the Department of Local Government and Housing, which has been incorrectly classified. These amounts represent Long Term Liabilities in terms of the agreements inspected during the audit.
40. Supporting documentation for housing subsidies to the value of R2 060 179 has not been provided. There was no satisfactory alternative audit procedure that I could perform to obtain reasonable assurance that housing subsidies were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to classification on the financial statements.

41. Included in the Statement of Financial Performance is grants and subsidies paid of R18 727 246 (2009: R22 404 322) included in note 30. Supporting documentation for expenditure to the value of R1 361 333 had not been provided. There was no satisfactory alternative audit procedure that I could perform to obtain reasonable assurance that grants and subsidies paid were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to accuracy and classification on the financial statements.
42. Included in the Statement of Financial Performance is Government grants and subsidies of R289 543 466 (2009: R242 629 801) included in note 22. Reconciliation has not been provided for grant revenue recognised to the value of R619 392. There was no satisfactory alternative audit procedure that I could perform to obtain reasonable assurance that grant revenue were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness on the financial statements.

Capital commitments

43. Differences were noted between the approved and contracted for amounts and between the approved but not yet contracted for commitments. This has lead to an overstatement of capital commitments as disclosed in note 39 of R210 851 679 (2009: R247 292 419) by R8 358 779.

Corresponding figures

44. The audit report on the financial statements for the year ended 30 June 2009 was modified. No adjustments have been effected to the financial statements to correct the matters raised in the prior year audit report. As a result, the effect of the prior year uncertainties has an effect on the accumulated surplus and balance sheet items. The municipality has not addressed the issues raised in the previous audit report and as required by section 131 (1) of the MFMA.
45. The municipality has not adjusted their corresponding figures with individually immaterial misstatements which when aggregated amount to R8 484 700 and as a result the comparative figures of the financial statements are materially misstated by the same amount.

Statement of changes in Net Assets

46. The Statement changes in Net Assets is not in compliance with the disclosure requirements of GRAP 3, *Accounting policies, changes in accounting estimates and errors*.

Cash flow Statement

47. Standards of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*, requires that the financial statements present fairly the financial position, financial performance and cash flows of an municipality. Internal controls were not put in place to ensure that the financial statement are accurate. The cash flow statement had casting errors amounting to R25 997 549.

Disclaimer of opinion

48. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion of these financial statements.

Emphasis of matter

49. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

50. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of prior year errors.

Matters important to the users of the financial statements:**Contingent liabilities**

51. With reference to note 41 to the financial statements, the municipality is a defendant in claims against the municipality. The municipality is opposing the claims. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements. Two significant responses where litigation is pending are:

- Land claim
- Breach of lease agreement

Councillors Arrear Accounts

52. As disclosed in the note 38.5 to the financial statements, Councillors of the municipality had arrear consumer accounts amounting to R 121 268 of this amount R96 848 related to amounts outstanding for more than 90 days.

Irregular expenditure

53. As disclosed in note 37.3 to the financial statements is irregular expenditure of R2 482 746 which related to irregular expenditure of the prior year. This amount was condoned during the current year.

Management representation letter

54. Management did not provide their latest management representation letter although this letter was requested.

Additional matter**Unaudited supplementary schedules**

55. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

56. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations, and financial management (internal control).

Predetermined objectives

57. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Usefulness of information

58. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

The following objectives reported on in the annual performance report were not included in the Integrated development plan and the service delivery implementation plan:

- Compliance with National Building Standards Act,
- Capacity Building,
- Filing of Vacant Posts,
- To promote economic development,
- Monitor and control applications for containers and caravans to avoid influx within the central business district,
- To liaise with government and deal directly with the public for implementation of projects

There was no logical link between the reported objectives, indicators and targets for the following objectives:

- Implement and administer land use management system and regulations to ensure that applicable legislative and administrative procedures are followed in terms of land use control
- Electricity
- Compliance with National Building Standards Act

The following indicator/measure per objective were not well defined, specific and understandable:

- Approved projects completed within the financial year,
- 71km to be completed within financial year of 2009/2010
- Pothole patching
- Sidewalk repairs
- Storm water cleaning
- Manhole repairs
- Maintenance of street lights
- Visibility of lights in suburbs where there are street lights
- Maintenance of substations & transformers
- Laying & replacing of cables
- Establishment of line in all Townships
- Maintaining Municipal assets

- Servicing Municipal fleet
- Amended Town Planning Scheme aligned with Master Plan
- Rem of Maydem Farm 70 sites
- Formalization of the existing settlement in alignment with the BNG principles and the Memorandum of Understanding with the Department of Housing
- Zimbane (50 ha=1500 units)
- Number of building plans finalized within 3months of receipt
- All vacant post must be filled

The following indicators were not measureable.

- Fully comply with DORA responding requirements
- Pothole patching
- Sidewalk repairs
- Storm water cleaning
- Gravel access roads
- Manhole repairs
- Maintenance of street lights (Robots)
- Visibility of light in suburbs where there are street lights
- Maintenance of substation and transformers
- Laying of cable and replacing dilapidated reticulation
- Establishment of line in all townships
- Maintaining municipal assets ,servicing municipal fleet
- 380 Houses in zimbane
- 250 houses in ilitha ,8 pilot houses (BNG),BNG pilot programme
- Maydem farm 70 house
- Land made available for development
- Processing of application in an inefficient manner
- Processing of building plans

The annual performance report did not include the measurable targets for the following objectives:

- Scrutinizing and Approval of plans - Number of building plans finalized within 3months of receipt
- Contravention notices - Monthly portfolio reports indicating the number of contraventions attended to
- Site Inspections and issuing completion certificate - To ensure that 80% of all site inspections are done within 48 working hours (5days) of request
- Pothole Patching
- Sidewalk repairs
- Storm water cleaning
- Manhole repairs
- Identification of land for the new cemetery
- Erf 2784 for Taxi rank and shopping complex

Reliability of information

59. The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the municipality i.e. can the reported performance information be traced back to the source data or documentation?

- **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

The reported performance could not be traced back to source data as no supporting information was provided for audit purposes for the following indicators:

- Monitor the project implementation - Regular site visits and monitoring is conducted weekly and as when required with PSC meeting held monthly on site An ongoing activity done by PMU project team
- Maintenance of street lights
- Maintenance of Robots an ongoing program, the problem being the construction of Nelson Mandela Drive where robots cables are being interfered with causing problems with robots
- Visibility of lights in suburbs where there are street lights
- Maintenance of substations & transformers
- Laying and replacing of cables
- Establishment of line in all Townships
- Geographical Information System (GIS) training
- Formulate policy documents with regard to the use of land for adoption by Council as a guiding and planning tool
- Zimbane (50 ha=1500 units)
- Formalisation and development of the existing settlements known as Mandela Park, Chris Hani Park and Slovo Park in Mithatha West Informal (5000 units)
- Liaise with government and deal directly with the public in order to seek approval of land use applications and township establishments
- Either by phoning, written correspondence and meetings

Performance for the following objectives would not be verified as adequate supporting information was not provided,

- Maintaining municipal assets,
- Servicing fleet
- 782 Houses at Zimbane Valley
- 463 Houses at Ilitha
- Monitor and control applications for containers and caravans to avoid the influx within the Central Business District.

The objectives listed below were reported on in the incorrect period:

- Relaying paving slabs at Sutherlands street & Building additional room at stores
- 450 house at waterfall

There are no controls in place to ensure that information ultimately included in the performance report is accurate and measurable as there was no evidence of review of the monthly reports.

The performance information reported was not accurate as the actual performance achieved per the annual performance report for the year under review did not take into account the results of all the quarterly reports thus we were unable to verify and measure actual performance achieved.

Compliance with laws and regulations

Municipal Finance Management Act of South Africa, No 56 of 2003 (MFMA)

60. Contrary to the requirements of section 166(2)(a) of the MFMA, the audit committee did not advise the municipal council, the political office bearers, the Accounting Officer and the management staff of the municipality, on matters relating to:
- internal financial control and internal audit
 - risk management
 - accounting policies
 - the adequacy, reliability and accuracy of financial reporting and information
 - performance management
 - effective governance
 - compliance with the MFMA, the DoRA, Municipal Structures Act, Municipal Systems Act, National Environmental Management Act Unemployment Insurance Contributions Act, Municipal Rates Act, Value-Added Tax Act and any other applicable legislation
 - performance evaluation
61. Contrary to the requirements of section 166(2)(b) of the MFMA, the Audit Committee did not review the annual financial statements to provide the council of the municipality, with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA, the DoRA and any other applicable legislation.
62. Contrary to the requirements of section 166 (4) of the MFMA, the audit committee did not meet as often as was required to perform its functions, but at least four times a year.
63. Contrary to the requirements of section 165(2) of the MFMA, the internal audit unit of a municipality did not:
- prepare a risk-based audit plan and an internal audit program for each financial year
 - advise the Accounting Officer and report to the Audit Committee on the implementation of the internal audit plan and matters relating to:
 - i. internal audit
 - ii. internal controls
 - iii. accounting procedures and practices
 - iv. risk management
 - v. performance management
 - vi. loss control
 - vii. compliance with the MFMA, the DoRA and any other applicable legislation perform the duties assigned to it by the Accounting Officer.
64. Contrary to the requirements of section 62(1) of the MFMA, the Accounting Officer did not comply with his legislative responsibility of managing the financial administration of the municipality by not taking reasonable steps to ensure that:
- the municipality had and maintained effective, efficient and transparent systems of:
 - i. financial management and internal controls
 - ii. internal audit operating in accordance with any prescribed norms and standards
65. Contrary to the requirements of section 65(2)(e) of the MFMA, expenditure was not paid within the required 30 days from the receipt of an invoice, or such a period as prescribed for certain categories of expenditure.
66. Other material non compliance includes non compliance with sections 14, 16, 45, 46, 53, 63, 66, 74, 79, 84, 95 and 99.

Division of Revenue Act of South Africa, No 12 of 2009 (DoRA)

- 67. Contrary to the requirements of section 15 and 47 of DoRA the municipality did not adhere to the conditions attached to conditional grant.
- 68. Further numerous findings were identified around the control and management of these grants include the identification and recognition.

National Environmental Management Act No. 107 of 1998

- 69. Contrary to the requirements of section 11, 20 and 29 the municipality has not included an adequate provision for the rehabilitation of landfill sites.

Unemployment Insurance Contributions Act No. 4 of 2002

- 70. Contrary to the requirements of section 5, 7, 12 and 13, the municipality has not adequately accounted for UIF on Councilors remuneration.

Value Added Tax Act No. 69 of 1991

- 71. Contrary to the requirements of section 20 and 28, the municipality has not adequately applied the requirements of the VAT Act. The municipality has claimed value added tax deductions based on invoices that are not considered a valid tax invoice in terms of the VAT legislation. The municipality has inconsistently applied zero rated and exempt status transactions within conditional grants and has inconsistently applied the prescribed VAT rate.

INTERNAL CONTROL

- 72. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the Municipal Finance Management Act, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- 73. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

- 74. Oversight responsibility over reporting, predetermine objectives and compliance with the laws and regulations and internal control was not exercised by the Accounting Officer. An adequate process to ensure the review of the annual financial statements prior to submission to the Auditor General was not performed, resulting in numerous misstatements of the financial information. This was also evidenced by the numerous instances of non-compliance with laws and regulations and the internal control deficiencies that were noted throughout the audit process. Personnel are not aware of the allocation of duties, responsibilities and lines of reporting, resulting in a lack of segregation of duties and the opportunity for fraudulent activities to take place. This is as a result of an organisational structure that does not support and promote a system for proper recording, monitoring and supervision of controls.
- 75. Systems are not always documented in the policy and procedure manual and the results of the monitoring process are not routinely communicated to all managers and staff. This was particularly evident with regards to the inventory and asset management where results of inventory/asset counts were not reported and discrepancies adequately followed up and addressed. Key policies and procedures were not in place.

76. The action to mitigate emerging risks, implement corrective measures and address non performance was not adequately addressed. The municipality has also did not properly analyse the control weaknesses and implement appropriate follow-up actions that adequately address the root causes. This has resulted in the qualifications from the prior year report being repeated in the current year.

Financial and performance management

77. Reliable financial statements and management information are not prepared by the municipality. The municipality provided supporting schedules for the financial statement but these in many cases did not agree with the amounts disclosed in the financial statements. Reconciliations were prepared during the year however, the reconciling items were not corrected and where these items were corrected were not always supported by adequate supporting documentation.
78. The municipality does not have adequate financial systems in place to ensure compliance with the basis of accounting. As a result, pertinent information relating to the disclosure items in the financial statements is not identified and captured in a form and time frame to support financial and performance reporting.
79. The municipality does not have proper record keeping and record management processes in place to ensure that the documentation supporting the amounts and disclosures in the annual financial statements are properly filed and easily retrievable. Information requested for audit purposes were not readily available as significant delays were experienced throughout the audit process. In some cases, the documentation was not received at all which resulted in a limitation of scope being placed on the audit.

Governance

80. Risk identification and management processes are not designed to identify changes in processes or risks and verify that the design of underlying controls remain effective. The municipality has not selected and developed internal controls to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

Auditor General

East London

30 November 2010



AUDITOR GENERAL
SOUTH AFRICA

Auditing to build public confidence